

Nancy Bocken: Transition businesses to a circular service business model

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Abstract:

Corporations are tasked to take responsibility for the consequences of their actions on the people, society, and environment. Although the exhortation has been on the radar for three decades, pernicious business practices ensue. To address the problem, sustainability champions seek innovations. One of these innovations is the circular economy. Dr. Nancy Bocken, Professor of Sustainable Business at the Maastricht Sustainability Institute (MSI), is a leading scholar in the field. She has embarked on a project on circular economy innovation and counsels professionals and legislators on the conversion of businesses to a circular service business model. In this interview, Dr. Bocken explains the four key strategies of a circular economy, how these strategies link to the ethical aspect of doing business, and concomitantly how these strategies lead to profitability. On one hand, she provides examples of unsustainable business models. On the other hand, she explains the creation of sustainable value at the different stages of a business and at different levels in the organization. Dr. Bocken conveys that for circular economy and circular service business models to succeed, collaboration is imperative.

MA: What can be the role of business in sustainability transitions? Should it have a role? To what extent?

NB: Business is often seen as the driver for unsustainable consumption and production and the negative consequences on the environment and society. My personal work in the broad field of 'Sustainable Business' focuses on the potentially positive role of business as a driver for sustainability transitions through innovations and driving sustainable consumption, so in short: how business can be used as a force for good. I focus very much on new sustainable and circular business models, as well as 'sufficiency' (sustainable consumption) through the lens of business. The idea of business as a force for change is certainly not new. For example, the sustainable development agenda by the 1987's Brundtland Report "Our common future"¹ has been translated into various positive visions and actions by leading thinkers, showing the strategic ways for a business to take a leading role in bettering society and the environment. Corporate Social Responsibility (CSR) became popular in the 1990s and is about the extent to which organizations meet legal, economic, and ethical responsibilities to address key stakeholder concerns². John Elkington coined the term 'triple bottom line' of people, profit, and planet in the 1990s³, to broaden the business focus beyond the financial to include responsibility for the society and environment. The work by Prof. Stuart Hart defined different ways in which firms could create "sustainable value", including pollution prevention to minimize waste, and reduces cost and risk; product stewardship to manage the full life cycle of products, which contributes to reputation; clean technology to accelerate innovation; and base of the pyramid to co-create new businesses to serve the unmet needs of the poor and

¹ Brundtland, G. H., Khalid, M., Agnelli, S., Al-Athel, S., & Chidzero, B. J. N. Y. (1987). Our common future. New York, 8.

² Vanhamme, J., & Grobben, B. (2009). "Too good to be true!". The effectiveness of CSR history in countering negative publicity. *Journal of Business Ethics*, 85(2), 273-283.

³ Elkington, J. (1997). Cannibals with forks. *The triple bottom line of 21st century*, 73.

underserved to define new business trajectories ⁴. As for the latter, Nobel Laureate Muhammad Yunus became famous for his work on social businesses such as Grameen bank, which pioneered micro-finance and created several businesses designed to alleviate poverty. Rather than optimizing shareholder value, social businesses focus on creating stakeholder value, such as poverty reduction, focusing on issues such as nutrition and information access, while being financially viable⁵. Focusing more on environmental issues, the circular economy concept can be seen as another important driver for the sustainability transition, in which companies take responsibility for resource usage and ultimately the climate and biodiversity crises. In Europe, the EU Circular Economy Action plan has been adopted with legislative and non-legislative measures as part of its new agenda for sustainable growth. ⁶ In a circular economy, one can distinguish various loops: narrow loops (use less), close loops (use the material again), slow loops (use products longer) and regenerate loops (improvement and regeneration of biodiversity and society)⁷. To me, circular economy can be seen as an important way for businesses to drive the sustainability transition through taking greater responsibility for the natural environment while creating new opportunities.

MA: In an article by Svennson et al. (2010), the authors expressed, “one cannot have truly sustainable business practices without being focused on what is ethical.”⁸ What are your comments on this? Are ethical aspects highlighted in the business practices of the circular economy?

NB: Increasingly, companies do not only act within their own legal framework but also try and take responsibility in areas where the legislation — whether it is on labor conditions or environmental issues — is still lacking. The reasons may be related to the above such as reputation and legitimacy, reducing (future) cost and risk, and securing a future market and supplier base. In the case of circular economy, one can distinguish four key strategies⁹:

1. Narrowing the loop: efficiencies in the production and design process
2. Slowing the loop: Long product life, product life extension, and avoiding unnecessary consumption
3. Closing the loop: in essence, post-consumer recycling
4. Regenerating the loop: leaving the environment (and society) in a better state than in which it was found, e.g., through seeking to improve biodiversity and the natural environment

As for slowing the loop, you see companies like outdoor company Patagonia (now followed by several others) questioning ‘Black Friday’ consumerism, and whether we should consume

⁴ See: Hart, S. L. (2010). Capitalism at the crossroads: Next generation business strategies for a post-crisis world. FT Press. Or: <https://www.stuartlhart.com/sustainablevalue.html>

⁵ Yunus, M., Moingeon, B., & Lehmann-Ortega, L. (2010). Building social business models: Lessons from the Grameen experience. *Long range planning*, 43(2-3), 308-325.

⁶ <https://ec.europa.eu/environment/circular-economy/>

⁷ Bocken, N. M. P., Stahel, W., Dobrauz, G., Koumbarakis, A., Obst, M., Matzdorf, P. (2021), Circularity as the new normal. Future fitting Swiss business strategies. WWF Switzerland and PWC.

⁸ Svensson, G., Wood, G., & Callaghan, M. (2010). A corporate model of sustainable business practices: An ethical perspective. *Journal of World Business*, 45(4), 336-345, p. 337

⁹ See: Bocken, N. M., De Pauw, I., Bakker, C., & Van Der Grinten, B. (2016). Product design and business model strategies for a circular economy. *Journal of Industrial and Production Engineering*, 33(5), 308-320.

And:

Bocken, N. M. P., Stahel, W., Dobrauz, G., Koumbarakis, A., Obst, M., Matzdorf, P. (2021), Circularity as the new normal. Future fitting Swiss business strategies. WWF Switzerland and PWC.

so much as we do. Companies like Patagonia are starting to advocate buying less, repair and reuse and buying second-hand instead. In the area of regeneration, you see fast-moving consumer goods companies like Nestlé and Unilever becoming concerned about biodiversity and bee populations, taking on collaborative initiatives to protect the natural environment. Of course, these activities also help secure the future supply of raw materials but go much beyond what is currently ‘legally required’ and can also be seen as a form of ethical leadership.

MA: Previous observations from the gig economy have shown that workers in these jobs are often treated quite poorly, and have to work in questionable conditions. How can companies ensure that this won’t happen in their new circular business models?

NB: In our project Circular X (www.circularx.eu) we look into the early phases of experimentation with circular service business models (CSBMs), such as subscription, rental and long-life product life service models with a focus on closing, slowing, narrowing and regenerating resource loops. It sounds ‘simple’, but similar to the focus on environmental impact, positive societal impact needs to be ‘built into’ the model earlier on: how can a fair model be developed? How can we gain more as a network of stakeholders and create more value in total, rather than fighting over a smaller ‘pie’ of value? In the past, we developed tools such as the value mapping tool¹⁰ that can help you as a company (re)think how you can create sustainable value: by becoming more aware of your business purpose, and the value missed and value destroyed in relation to different stakeholders (including society and the environment), you as a company can become more aware of your negative impacts. This insight can help you identify new opportunities to collaboratively create more sustainable value.

MA: What are ‘unsustainable business models’? Can you give some examples?

NB: Together with my colleague Dr. Sam Short, we have written a paper in 2021 on unsustainable business models to create greater awareness about these in different industries, as an answer to our older popular (2014) paper on sustainable business models archetypes. Some examples of dominant unsustainable business models that are institutionalized: fast consumption models, exploitative business models, and opaque global models¹¹.

- Exploitative business models: financially successful due to exploiting natural and human resources
- Addictive consumption model: focused on normalizing and increasing dependency on unsustainable consumption patterns through addictive products and services
- Complex opaque value chain: dependent on global arbitrage between rich and poor nations that allow the developed world to access products artificially cheaply, with high impact of global transportation; kept in place due to a lack of transparency accountability

MA: In a circular economy, how do organizations integrate sustainability with profitability?

¹⁰ See: Bocken, N., Short, S., Rana, P., Evans, S. 2013. A value mapping tool for sustainable business modelling. Corporate Governance, 13 (5), 482 – 497

¹¹ This idea of unsustainable business models is based on the following study: Bocken, N. M., & Short, S. W. (2021). Unsustainable business models—Recognising and resolving institutionalised social and environmental harm. Journal of Cleaner Production, 127828. This is based on the former paper: Bocken, N. M., Short, S. W., Rana, P., & Evans, S. (2014). A literature and practice review to develop sustainable business model archetypes. Journal of cleaner production, 65, 42-56.

To give you some examples according to the four key circular economy strategies:

- Closing the loop: recycling can save money, ensure a future material supply, and lead to reputational benefits; if used in a service model (e.g., subscription, rental) there can be continuous streams of income
- Slowing the loop: Long product life enabled through a subscription, rental or other service model allows for steady income streams, a more quality product can be coupled with higher prices and profit margins. There may be indirect benefits through brand equity and continuous innovation, recapturing value from second-hand markets (i.e., selling the same product twice or thrice!)
- Narrowing the loop: efficiencies in the production and design process can save cost and sustainability can be used as a differentiator increasing profitability
- Regenerating the loop: leaving the environment (and society) in a better state than in which it was found can help secure future supplies, lead to better reputation and branding advantages that indirectly increase profitability

MA: What strategies can be employed so that the idea and practice of a circular economy are embedded across the organization?

NB: In our study at MIT Sloan together with Thijs Geradts¹², we identify three lessons for driving sustainability (and circularity) oriented innovation:

1. Managers should articulate the company's purpose and how sustainability or circularity fits in.
2. They should stimulate and incentivize participation through performance management and reporting that includes sustainability or circularity.
3. They should make sure employees have adequate means and opportunities to collaborate

To ensure this, and create a culture for circular economy innovation, there needs to be a clear direction from top management, time, budget, and resources to work on innovation, room for collaboration, positive reinforcement (e.g., through rewards and recognition), and accountability.

MA: What stakeholder challenges are foreseen in the transition to CSBM? How should businesses engage their stakeholders?

The circular economy and circular service business models (CSBMs) address issues that are often much bigger than firm boundaries, like resource scarcity, biodiversity issues, and climate change. While some issues can be resolved internally, many innovations will need to be developed and rolled out collaboratively. This is what we also found in a joint paper with my colleague Prof. Paavo Ritala¹³ on open and closed circular economy innovation, and in the work with Dr. Jan Konietzko¹⁴ on circular economy ecosystems. This raises questions for example: Who has complementary skills? Who needs to see the same problem solved? How can we create joint platforms for reuse and recycling? We are also exploring the transition to these new CSBMs in project Circular X (www.circularx.eu) so watch this space!

¹² Geradts, T. H., & Bocken, N. M. (2019). Driving sustainability-oriented innovation. *Mit Sloan Management Review*, 60(2), 1.

¹³ Bocken, N., & Ritala, P. (2021). Six ways to build circular business models. *Journal of Business Strategy*.

¹⁴ Konietzko, J., Bocken, N., & Hultink, E. J. (2020). Circular ecosystem innovation: An initial set of principles. *Journal of Cleaner Production*, 253, 119942.